

**UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA**

NATHAN A. SAUNDERS II,

Plaintiff,

V.

ESTHER HANKERSON *et al.*,

Defendants.

No. 1:02 CV 02536 (EGS)

**NOTICE OF PROPOSED RESOLUTION  
OF NATHAN SAUNDERS II'S DERIVATIVE ACTION**

**TO: MEMBERS OF THE WASHINGTON TEACHERS' UNION**

**PLEASE READ THIS NOTICE CAREFULLY AS THE RESOLUTION DESCRIBED BELOW AFFECTS THE WASHINGTON TEACHERS' UNION**

This Notice has been sent to you pursuant to Rule 23.1 of the Federal Rules of Civil Procedure and an Order of the United States District Court for the District of Columbia (the “Court”). The purpose of this Notice is to inform you of the proposed resolution of the lawsuit brought by derivative Plaintiff, Nathan Saunders II against the American Federation of Teachers, AFL-CIO (“AFT”) and others. The AFT is the national affiliate of the Washington Teachers’ Union (“WTU”). This Notice also serves to inform you of the hearing to be held by the Court to consider the fairness, reasonableness, and adequacy of the resolution.

This Notice is not an expression of any opinion by the Court about the merits of any of the claims or defenses asserted by any party in this litigation or the fairness or adequacy of the proposed resolution.

**MR. SAUNDERS'S LAWSUIT**

Mr. Saunders's lawsuit arises from the alleged embezzlement of approximately five million dollars in union funds by former officials of the WTU. The individuals directly involved in the alleged wrongdoing were indicted and processed through the criminal justice system.

Nathan Saunders filed a derivative lawsuit against the former Executive Board of the WTU, the WTU's former Board of Trustees, the American Federation of Teachers, AFL-CIO ("AFT"), The Independence Federal Savings Bank and other individuals for either being directly

involved in the alleged embezzlement, for aiding in the embezzlement, or for failing to identify the fraudulent activity and put a stop to it. Mr. Saunders's lawsuit was derivative in nature. He sought monetary and injunctive relief on behalf of the WTU as an institution -- not for himself or for individual members of the Union. In particular, Mr. Saunders alleged violations of the Labor-Management Reporting and Disclosure Act, the Labor-Management Relations Act, and the Racketeer Influenced and Corrupt Organizations Act.<sup>1</sup>

### **THE PROPOSED RESOLUTION**

Under the Proposed Resolution,

1. The WTU and the AFT will, under the lawsuit filed by the AFT, jointly pursue the recovery of money from those who embezzled and absconded with millions of dollars in funds from the WTU and those individuals and entities that aided and abetted or facilitated the embezzlement of funds from the WTU between 1995 and 2002; and
2. Any and all of the money that the AFT and the WTU recover from the individuals and entities that either embezzled the union funds or facilitated in the embezzlement of the funds will be allocated entirely to the WTU treasury; and
3. Bryan Cave LLP will serve as lead co-counsel in the foregoing lawsuit and the AFT will pay all of its fees and expenses; and
4. Hall Estill will serve as co-counsel in the foregoing lawsuit. The AFT will reimburse Hall Estill for up to \$12,500 in documented expenses (excluding legal fees) incurred in pursuing the lawsuit. The WTU will pay Hall Estill's legal fees and all expenses exceeding \$12,500 (which represents the amount the AFT has agreed to reimburse Hall Estill); and
5. The AFT will provide \$171,254, to pay for the WTU's portion of the costs associated with the services of Thought Bridge, which the WTU retained while it was under the AFT's Administratorship to assist in negotiations with the Washington, DC Public School System for a successor collective bargaining agreement;
6. The WTU and the AFT have renegotiated the repayment of the WTU's delinquent per capita dues that arose due to the alleged embezzlement. When the WTU and AFT examined the amount due, an overpayment to the AFT of \$109,536.45 for the WTU's per capita dues between January 2003 and December 2004 was discovered, which was caused by inaccurate member numbers provided by DC Public Schools. In recognition of this overpayment, the total amount owed to the AFT has been reduced by \$109,536.45. The parties renegotiated the terms of the repayment so that the WTU will reimburse the AFT the remaining amount of \$466,638.18 over the course of four years in the amount of \$10,000 per month.

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<sup>1</sup>

Mr. Saunders only pled certain claims against certain Defendants.

These monthly payments can be adjusted in accordance with the Supplemental Agreement reached between the WTU and the AFT.

7. Mr. Saunders agrees to dismiss with prejudice all of the Defendants named in his derivative action entitled Saunders v. Hankerson, No. 1:02 CV 02536 (EGS). The Defendants named in his Amended Complaint are as follows: the former Executive Board of the WTU, the former Board of Trustees, the individual Defendants, the Independence Federal Savings Bank, Edward J. McElroy, and the AFT.

### **WHY MR. SAUNDERS CHOSE TO RESOLVE HIS LAWSUIT**

Mr. Saunders believes that the Proposed Resolution is in the best interests of the WTU. Mr. Saunders's reasons for bringing the lawsuit were to restore good governance to the WTU, to assist the Union in recovering its funds, and to address an apparent lack of information and accountability provided to the membership during the discovery of the embezzlement. In light of the AFT's establishment of an Administratorship, the development of a new Constitution with additional protections for the union's membership, and the subsequent election and installation of a new Executive Board and Officers, many of the concerns underlying Mr. Saunders's lawsuit have now been addressed, and the remaining ones will be addressed through the agreement resolving this lawsuit. As is the risk with any litigation, there was a possibility that Mr. Saunders would not have prevailed on his claims, in which case the WTU would receive nothing and, in the process, further damage the rebuilding of the relationship between the WTU and the AFT.

In addition, the Proposed Resolution facilitates needed financial support for the WTU immediately. Even if Mr. Saunders had recovered any money from the defendants, it would be months and more likely years before the WTU could have received the proceeds of any judgment. The immediate influx of funding is particularly important to the WTU given the financial condition of the union resulting from the embezzlement, which formed the basis of Mr. Saunders's Complaint.

Under the Proposed Resolution, the WTU and the AFT will continue to pursue the claims contained in the lawsuit filed by the AFT against the individuals directly involved in the fraud, as well as against the Independence Federal Savings Bank. However, they will be able to present a united front in pursuing these claims.

Finally, the new WTU Board seeks to establish a more harmonious relationship with the AFT, which it believes will significantly benefit the WTU's membership. Had the litigation continued, such a relationship would have been difficult, if not impossible, to maintain.

### **THE WTU EXECUTIVE BOARD'S ENDORSEMENT OF THE PROPOSED RESOLUTION**

The new Executive Board of the WTU met with counsel for both Mr. Saunders and the AFT to discuss Mr. Saunders's lawsuit. It also received independent legal advice from its own

counsel on the subject and carefully and thoroughly considered all of the aspects of this Proposed Resolution. On August 25, 2005, the new Executive Board of the WTU adopted and agreed to the terms of the Resolution Agreement between Mr. Saunders and the AFT.

### **THE FAIRNESS HEARING**

On November 14, 2005, at 5:30 pm the United States District for the District of Columbia will conduct a hearing. At the Hearing, the Court will examine:

- 1) whether the proposed resolution is fair, reasonable, and adequate and in the best interests of the WTU; and
- 2) whether a Preliminary Order should be entered approving the Resolution Agreement and dismissing Mr. Saunders's lawsuit with prejudice against all of the entities and individuals identified in his Amended Complaint;

The hearing will be located at 333 Constitution, Avenue, NW, Washington, DC, 20001 in Courtroom 1.

### **THE RIGHT TO BE HEARD AT THE FAIRNESS HEARING**

If you want to object to the Proposed Resolution, you must prepare a written objection containing: 1) the name of the case, which is entitled "Saunders v. Hankerson, No. 1:02 CV 02536 (EGS):" 2) a statement as to whether you intend to speak at the fairness hearing, either in person or through counsel; 3) a statement regarding the specific basis of the objection; 4) the objector's name; 5) the objector's current address and telephone number; 6) and the objector's signature.

You must mail the objection to the following individuals on or before November 2, 2005:

Clerk of the Court  
United States District Court  
for the District of Columbia  
333 Constitution Avenue, NW  
Washington, DC 20001

Patricia Byrne  
WILMER, CUTLER, PICKERING HALE  
& DORR LLP  
2445 M Street, NW  
Washington, DC 20037

*Counsel for Nathan Saunders II*

James M. Cole  
BRYAN CAVE LLP  
700 Thirteenth Street, N.W., Suite 700  
Washington, DC 20005-3960

*Counsel for the American Federation of Teachers, AFL-CIO*

**DO NOT TELEPHONE THE COURT REGARDING THIS NOTICE**

Dated: \_\_\_\_\_

BY THE ORDER OF THE COURT  
UNITED STATES DISTRICT COURT  
THE DISTRICT OF COLUMBIA